

PROPERTY

SCI à l'IS (property company taxed as a company)

The family property company subject to corporation tax, which depreciates its buildings.

An SCI taxed as a company is used to build a rental portfolio by reinvesting the rents, with depreciation of the buildings reducing tax while they are held.

OVERVIEW

An SCI may elect for corporation tax. It then depreciates its buildings, which sharply reduces taxable profit during the depreciation period. It pays corporation tax at the reduced rate of 15% up to €42,500 of profit, then at 25%. In return, the capital gain on sale is computed on net book value, and is therefore increased by the depreciation, without the holding-period allowance available to individuals. Distributions to members are taxed a second time. The election is irrevocable.

HOW IT WORKS

Purchase

Building acquired by the company

Holding

Rents less costs and depreciation

Resale

Capital gain computed on net book value

KEY POINTS

Strengths

Deductible depreciation, which property income taxed under income tax does not allow

Reduced 15% corporation tax rate up to €42,500 of profit

Flexible transfer of shares

Family holding structure without joint ownership

Points to watch

Capital gain on sale heavily taxed (corporation tax regime)

Commercial accounting compulsory

No main-residence allowance

Complex to unwind into outright ownership

WHO IT IS FOR

Families or business owners who want to build a rental portfolio over a long horizon by reinvesting the rents instead of taking them, or to hold business premises. Commercial accounts are compulsory.

WORKED

ILLUSTRATION

Example based on assumptions

Assumptions: a family buys an €800,000 rental building through an SCI taxed as a company, of which €640,000 relates to the building itself, depreciated over 40 years. Depreciation of €16,000 a year is deducted from rents and reduces taxable profit by the same amount. On resale, the capital gain will be computed on net book value.



Sébastien Bailly
Founder, ASTERALE

The first meeting, which lasts about an hour, is free of charge.
sebastien.bailly@asterale.fr
+33 6 28 54 13 74
www.asterale.fr/en/

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Risk of capital loss on resale. Letting risk: vacancy, arrears, damage. Costs, works and local taxes may rise. Acquisition costs are high and resale is slow. Tax regimes depend on conditions being met over time and on the legislation in force.

Complaints and mediation

Any complaint may be sent to ASTERALE, 4 allée Django Reinhardt, 94110 Arcueil, France, or to sebastien.bailly@asterale.fr. Failing a satisfactory reply within two months, you may refer the matter to the competent mediator. For financial investment advice: the AMF Ombudsman (Médiateur de l'AMF), 17 place de la Bourse, 75082 Paris Cedex 02 (www.amf-france.org/fr/le-mediateur). For insurance broking and intermediation, banking and payment services intermediation and property transactions: ANM Conso, 2 rue de Colmar, 94300 Vincennes (www.anm-conso.com, contact@anmconso.com).

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